

## Message Text

CONFIDENTIAL

PAGE 01 MANILA 02204 01 OF 02 111101Z

ACTION EB-08

INFO OCT-01 EA-07 ISO-00 AGRE-00 COME-00 TRSE-00 OMB-01

STR-04 SP-02 CIAE-00 INR-07 NSAE-00 L-03 /033 W

-----111112Z 006339 /11

P 110926Z FEB 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 5954

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 2204

PASS: USDA

E O 11652: GDS

TAGS: ETRD, EAGR, RP

SUBJ: SUGAR: GOP NEGOTIATIONS WITH U.S. COMPANIES

REF: A. MANILA 1461; B. STATE 24939; C. MANILA 2010

SUMMARY: NEGOTIATIONS CONTINUE ON NEW PARTICIPATING CONTRACT BETWEEN SUCREST AND GOP. DRAFT CONTRACT REPORTEDLY PROVIDES FOR PRICE OF 12 CENTS PER POUND, SALE OF MINIMUM OF 700,000 TONS PER YEAR, AND SUCREST ADVANCE LOAN ON SUGAR WHEN PRODUCED. SUCREST REPS CLAIM TRADING IN SUCREST STOCK WILL BE RESUMED FEB. 14. END SUMMARY

1. GOP SOURCES AND SUCREST OFFICIALS HAVE PROVIDED SOME ADDITIONAL INFORMATION REGARDING ONGOING GOP-SUCREST RENEGOTIATION OF PARTICIPATING SUGAR CONTRACT. AS REPORTED REF. C, TALKS BETWEEN SUCREST AND GOP REPS (LED BY PANFILO DOMINGO, PRESIDENT OF PHILIPPINE NATIONAL BANK) HAVE BEEN UNDER WAY IN MANILA SINCE JAN. 17. SUCREST TEAM IS HEADED BY ALLERTON D. MARSHALL, VICE PRESIDENT AND TREASURER, AND INCLUDES PETER A. MEYER, VICE PRESIDENT, AND RICHARD S. SAVITT, A LAWYER WITH STROOCK & STROOCK LAVAN, NEW YORK.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MANILA 02204 01 OF 02 111101Z

2. MARSHALL IS GENERALLY SATISFIED WITH PACE OF TALKS, ALTHOUGH HE SAYS LAST FEW DAYS HAVE BEEN DIFFICULT DUE TO COMPLEXITY OF FINANCIAL ARRANGEMENTS IN CONTRACT. WHILE NEITHER SIDE IS FREE WITH DETAILS, EMBASSY UNDERSTANDS CONTRACT IS BEING DRAWN UP ALONG FOLLOWING LINES: THE CONTRACT CITES A PRICE OF 12 CENTS PER POUND AND WILL PROVIDE FOR SALE OF A MINIMUM OF 700,000

TONS OF SUGAR PER YEAR. IN ADDITION, THE CONTRACT WILL CONTAIN A SO-CALLED "RED CLAUSE" WHICH PROVIDES THAT SUCREST WILL MAKE AN ADVANCE LOAN ON THE SUGAR WHEN IT IS PRODUCED. THE LOAN WILL BE MADE ON THE BASIS OF "QUEDANS", WAREHOUSE RECEIPTS ISSUED BY THE MILL, AT 12-CENT PRICE, WITH GOP RETAINING TITLE TO SUGAR. FILIPINOS HAVE INSISTED ON 12 CENT PRICE, CLAIMING THAT THIS FIGURE REPRESENTS AVERAGE PRODUCTION COST IN THE PHILIPPINES. (EMBASSY DOES NOT RPT NOT BELIEVE AVERAGE PRODUCTION COST CAN BE MUCH HIGHER THAN 10 CENTS PER POUND AND IT MAY BE CONSIDERABLY LOWER. THE PRICE PAID BY PHILEX (COMPOSITE PRICE) IS NOW 7.9 U.S. CENTS PER POUND.)

ACTUAL COST OF SUGAR TO SUCREST WILL, HOWEVER, BE DETERMINED AT SOME POINT AFTER SUGAR HAS BEEN SHIPPED AND ADVANCE PAID BY SUCREST WILL BE ADJUSTED TO REFLECT WORLD MARKET PRICE. GOP SOURCES ADDED THAT AS LONG AS PRICE OF SUGAR IS BELOW 12 CENTS, CONTRACT PROVIDES THAT SUCREST WILL RECOVER REFINING COSTS AND SOME OTHER UNSPECIFIED FINANCIAL COSTS, BUT NO "PROFITS". IN RETURN, SUCREST'S PROFITS WILL INCREASE DISPROPORTIONATELY IF PRICE RISES ABOVE 12 CENTS. WHILE THIS FORMULATION IS VAGUE, IT DOES SEEM TO INDICATE THAT GOP HAS SUCCEEDED, OR IS ABOUT TO SUCCEED, IN INCREASING ITS SHARE OF THE RETURNS ON SUGAR SOLD FOR UNDER 12 CENTS PER POUND.

4. SUCREST TEAM WAS AWARE OF RUMORS THAT THEIR COMPANY WAS HAVING DIFFICULTY ARRANGING NECESSARY FINANCING TO MEET GOP REQUEST FOR LOANS UNDER NEW CONTRACT. MARSHALL  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MANILA 02204 01 OF 02 111101Z

STATED EMPHATICALLY THAT THIS WAS NOT TRUE, AND NOTED THAT TRADING IN SUCREST STOCK WOULD BE RESUMED ON MONDAY, FEB. 14. SUCREST IS ARRANGING BANK GUARANTEES TO SPREAD RISK INHERANT IN THE LOANS, BUT IMPLIED THAT THESE GUARANTEES HAD ALREADY BEEN OBTAINED FROM U.S. BANKS.

5. SUCREST REPS CONFIRMED ALL THREE RUMORS WHICH EMBASSY HAD HEARD REGARDING SUSPENSION OF TRADING IN SUCREST STOCK: (1) PUBLIC ACCOUNTING FIRM AUDITING SUCREST WAS SUSPICIOUS THAT KICK-BACKS HAD BEEN MADE IN CONNECTION WITH PARTICIPATING CONTRACT WITH THE PHILIPPINES. (2) IN ADDITION, ACCOUNTING FIRM WOULD NOT ACCEPT INVENTORY

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MANILA 02204 02 OF 02 111104Z  
ACTION EB-08

INFO OCT-01 EA-07 ISO-00 AGRE-00 COME-00 TRSE-00 OMB-01  
L-03 STR-04 SP-02 CIAE-00 INR-07 NSAE-00 /033 W  
-----111111Z 006381 /11

P 110926Z FEB 77  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC PRIORITY 5955

C O N F I D E N T I A L SECTION 2 OF 2 MANILA 2204

EVALUATION PRACTICES FOLLOWED BY SUCREST. (3) FINALLY, THE SEC CLAIMED THAT BRIEF DESCRIPTION OF THE PHILIPPINE CONTRACT IN SUCREST'S FORM 10-4 DID NOT RPT NOT MEET RULES OF DISCLOSURE. MARSHALL SAYS THAT THE AUDITORS ARE NOW SATISFIED THAT NO KICK-BACKS WERE MADE. THE INVENTORY EVALUATION PROBLEMS WERE RESOLVED WHEN SUCREST AGREED TO IMPLEMENT A PACKAGE OF MANAGEMENT REFORMS WHICH INCLUDED REPLACING THE PRESIDENT OF THE COMPANY. THE DISPUTE WITH THE SEC WAS RESOLVED BY SUBMITTING A COMPLETE DESCRIPTION OF THE PARTICIPATING CONTRACT IN A CONFIDENTIAL FORM 10-4.

6. AS DISCUSSED REF. C, SUCREST HAS NOT RPT NOT, IN FACT, PAID FOR LAST TWO SHIPMENTS OF SUGAR FROM THE PHILIPPINES. HOWEVER, SUCREST CLAIMS THAT THEY ARE WITHHOLDING PAYMENT IN CONNECTION WITH 35 MILLION DOLLARS WHICH PHILIPPINES OWES SUCREST AS A RESULT OF ADVANCE PAYMENT OR LOAN PROVISIONS IN CURRENT PARTICIPATING CONTRACT. SUCREST REPS DOWNPLAY SERIOUSNESS OF THIS DISPUTE, QUALIFYING IT AS PART OF CURRENT NEGOTIATING PROCESS.

7. COMMENT: AS DISCUSSED IN PARA 3 OF REF. C, THE GOP SUGAR MARKETING MECHANISM BADLY NEEDS CASH, AND THE INCLUSION OF A LOAN PROVISION IN THE RENEGOTIATED PARTICIPATORY CONTRACTS COULD SOLVE THIS PROBLEM  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MANILA 02204 02 OF 02 111104Z

WITHOUT INCREASING GOP'S EXTERNAL DEBT. EVEN MORE INTERESTING IS TACTIC OF CITING A PURPORTED COST OF PRODUCTION, AND WRITING THE CONTRACT IN SUCH A WAY THAT THE PURCHASING REFINERY CAN DO LITTLE MORE THAN COVER COSTS WHEN SUGAR FALLS BELOW THE UNILATERALLY DECLARED "COST OF

PRODUCTION", EMBASSY HAS BEEN TOLD THAT GOP USED THIS SAME APPROACH IN 700,000 TON SALE TO PHILLIP BROTHERS (REF. A), AND SUCREST REPS SPECULAT THAT PHILLIP BROTHERS SALE IS A CONTINGENT SALE WHICH IS DESIGNED TO PUT PRESSURE ON SUCREST AND WHICH WILL ONLY TAKE EFFECT IF SUCREST CONTRACT IS NOT RPT NOT RENEGOTIATED.

8. WITH REGARD TO INTERNATIONAL COMMODITY MARKETING PRACTICES, THE MOST INTERESTING ASPECT OF THE NEW PARTICIPATING CONTRACT, AS WE NOW UNDERSTAND IT, IS THE INCLUSION OF CONCEPT OF AVERAGE COST OF PRODUCTION. EMBASSY BELIEVES THAT KEY ELEMENT OF GOP SUGAR POLICY IS PRESIDENT MARCOS' ACUTE FRUSTRATION THAT HE CANNOT CONTROL THE MARKETING ABROAD OF HIS PRIMARY EXPORT COMMODITY, SUGAR, AND THAT THIS FRUSTRATION IS REFLECTED IN THE STRUCTURE OF THE PROPOSED PARTICIPATING CONTRACT. THE NEW CONTRACT CAN ALSO BE VIEWED IN A LARGER CONTEXT AS PART OF THE CONTINUING EFFORT OF LDC'S TO REORGANIZE CURRENT ECONOMIC ORDER TO TAKE FULLER ACCOUNT OF THEIR PRODUCTION COSTS (AS THEY SEE THEM) AND TO INSURE LDC'S A LARGER SHARE OF PROCESSING INDUSTRY PROFITS. SULLIVAN

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** SUGAR  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 11-Feb-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977MANILA02204  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770049-0681  
**Format:** TEL  
**From:** MANILA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770250/aaaabsfa.tel  
**Line Count:** 194  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** def0f5c7-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 MANILA 1461, 77 STATE 24939, 77 MANILA 2010  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 23-Feb-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3343951  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SUGAR: GOP NEGOTIATIONS WITH U.S. COMPANIES  
**TAGS:** ETRD, EAGR, OCON, RP, US, SUCREST  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/def0f5c7-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009